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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF INSTITUTIONS

MOUNTAIN VIEW SCHOOL

Report on the Examination of Financial Schedules
Two Fiscal Years Ended June 30, 1984

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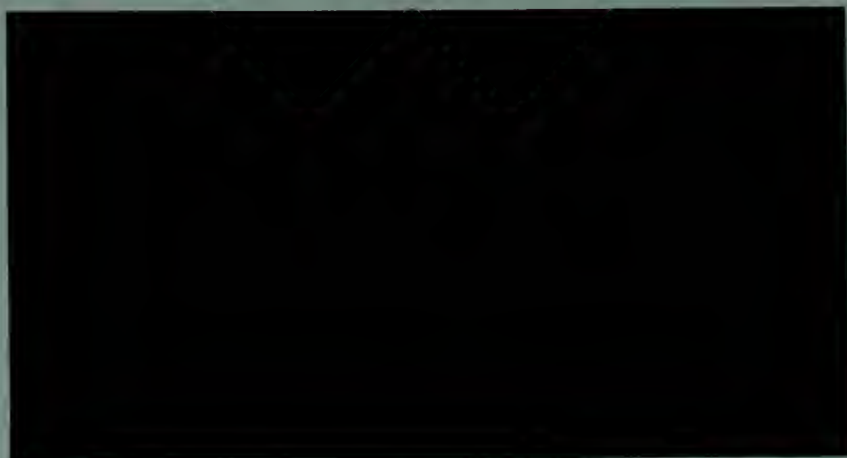


OFFICE OF THE LEGISLATIVE AUDITOR

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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF INSTITUTIONS

MOUNTAIN VIEW SCHOOL

Report on the Examination of Financial Schedules
Two Fiscal Years Ended June 30, 1984

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

Carroll South	Director
Curt Chisholm	Deputy Director
Daniel D. Russell	Administrator Corrections Division
Jim L. Haubein	Administrator Management Services Division

MOUNTAIN VIEW SCHOOL

George W. Unger	Superintendent
Jerold C. Skillman	Assistant Superintendent
Fred M. Swain	Business Manager

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The school record transactions relating to donations, recreation, and canteen accounts in the Special Revenue Fund.

3

Agency Reply: Concur. See page 21.

Recommendation #2

The school:

- A. Establish written policies for handling resident accounts with negative balances.

4

Agency Reply: Concur. See page 21.

- B. Reimburse negative account balances for allowable state expenditures at each fiscal year-end.

4

Agency Reply: Concur. See page 21.

Recommendation #3

The school transfer abandoned property to the Department of Revenue in accordance with state law.

5

Agency Reply: Concur. See page 21.

Recommendation #4

The Department of Institutions work with the Department of Administration to ensure the needs of the Department of Institutions are met while maintaining the integrity of the school's financial records.

6

Agency Reply: Concur. See page 22.

Recommendation #5

The school implement procedures to reconcile document logs with a log of processed transactions.

8

Agency Reply: Concur. See page 22.

GENERAL

We performed a financial compliance audit of the Mountain View School (MVS) for fiscal years 1982-83 and 1983-84. The objectives of the audit were to: (1) determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1984; (2) determine if the school complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the school.

This report contains five recommendations to the school. These recommendations address areas where the school can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the school programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Superintendent and his staff for their cooperation and assistance during the audit.

BACKGROUND

Mountain View School was established by the Legislature in 1893 as a part of the Boys and Girls Industrial School at Miles City, Montana. The state Legislature established the Vocational School for Girls in 1919 at the present site of Mountain View School, which became the official name on January 1, 1968.

Mountain View School's primary function is to provide care, education, training, and rehabilitation for girls aged ten to twenty-one. The school contracts with the federal government for the care of residents in federal jurisdiction and Montana Indian Tribal Councils for the care of residents in tribal jurisdiction.

The school receives both state and federal funding. The money is spent on the school's care and custody program.

Sources of federal funding include Elementary and Secondary Education Act Chapter I, the National School Food Program, and federal and tribal boarder commitments. In addition, the school receives commodities from the federal government.

AGENCY FUND PLACEMENT

During fiscal years 1982-83 and 1983-84, Mountain View School (MVS) maintained six accounts in its agency fund. These funds are deposited in a local bank account. Three of the accounts (donations, canteen, and recreation) are improperly recorded in the agency fund. State policy defines an agency fund as one that accounts for "assets held by a governmental unit . . . as an agent for individuals, private organizations, other governmental units, and/or other funds." Activity in these three accounts for the two fiscal years is as follows:

	<u>Donations</u>	<u>Canteen</u>	<u>Recreation</u>	<u>Total</u>
Balance June 30, 1982	\$414	\$283	\$1,753	\$2,450
Receipts - FY 83	17	787	5,489	6,293
Disbursements - FY 83	<u>(33)</u>	<u>(684)</u>	<u>(6,708)</u>	<u>(7,425)</u>
Balance June 30, 1983	<u>398</u>	<u>386</u>	<u>534</u>	<u>1,318</u>
Receipts - FY 84	257	854	6,704	7,815
Disbursements - FY 84	<u>(384)</u>	<u>(582)</u>	<u>(6,102)</u>	<u>(7,068)</u>
Balance June 30, 1984	<u>\$271</u>	<u>\$658</u>	<u>\$1,136</u>	<u>\$2,065</u>

The recreation and canteen funds account for the purchases and sales of pop, candy, and cigarettes. These three accounts are more appropriately accounted for in a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

In addition, Volume 36, Opinions of the Attorney General, Number 106, relating to donations, states "cash gifts, income from gifts of real property, securities and the like should therefore be deposited with the state treasurer. The treasury fund structure

act has created the federal and private revenue fund, wherein such gifts are to be deposited." The special revenue fund replaces the federal and private revenue fund under the current fund structure.

MVS should budget and record revenue and expenditures in the statewide accounting system since the expenditures made from these three accounts are mainly for the purchase of resale items. Historically, MVS has held these funds in the non-treasury account and has not budgeted for them. This allows the school to spend money without appropriation authority from the Legislature. This was a prior audit recommendation with which the school concurred.

According to a Department of Institutions official the school will submit a request for spending authority for these moneys during the 1985 Legislative Session. The accounts will then be transferred to the special revenue fund.

RECOMMENDATION #1

WE RECOMMEND THE SCHOOL RECORD TRANSACTIONS RELATING TO DONATIONS, RECREATION, AND CANTEEN ACCOUNTS IN THE SPECIAL REVENUE FUND.

RESIDENT ACCOUNT BALANCES

At June 30, 1984, the residents' accounts had a balance of \$6,421. The school is accountable for each resident's account. Occasionally, school officials allow a resident to overdraw her account. When a resident's account balance is overdrawn, other residents subsidize that resident's purchases and the school has not fulfilled its fiduciary responsibility. If all residents closed their accounts, state funds would be required to pay for the amounts disbursed to residents who did not have sufficient balances. MVS officials stated accounts are allowed to be overdrawn only when they expect a resident will be receiving money in the near future or the expenditure is of a nature for which state funds could be used. Examples are the purchase of a bus ticket for a trip home and purchase of clothing. The school's policy requires that either the Superintendent or his assistant approve the expenditures when an account will go negative as a result.

The school does not have a formal written policy regarding negative account balances. We noted several negative account balances which are over one year old. All negative balances represent receivables to the agency fund. The total of the negative accounts at June 30, 1984, was \$494 (or seven percent of the balance at year-end). Of this amount, \$231 represents accounts over one year old. Past experience indicates the school will not collect this money from the residents as they are released.

The school should establish written policies for handling resident accounts. The policies should include clearing negative resident accounts at each fiscal year-end by using state funds to reimburse allowable state expenditures in the resident accounts.

RECOMMENDATION #2

WE RECOMMEND THE SCHOOL:

- A. ESTABLISH WRITTEN POLICIES FOR HANDLING RESIDENT ACCOUNTS WITH NEGATIVE BALANCES.
- B. REIMBURSE NEGATIVE ACCOUNT BALANCES FOR ALLOWABLE STATE EXPENDITURES AT EACH FISCAL YEAR-END.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the school. In our opinion, except for the instance of non-compliance identified below, the school complied with the state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Abandoned Property

Section 70-9-207, MCA, requires all intangible property not claimed in seven years be turned over to the Department of Revenue as abandoned property. Mountain View School has not complied with this statute. At June 30, 1984, the school had \$70 of abandoned property representing uncashed checks and unclaimed

student accounts. The last transfer of abandoned property was made in 1971. MVS officials stated they have not transferred these moneys to the Department of Revenue because they consider the amount to be immaterial.

RECOMMENDATION #3

WE RECOMMEND THE SCHOOL TRANSFER ABANDONED PROPERTY TO THE DEPARTMENT OF REVENUE IN ACCORDANCE WITH STATE LAW.

ADMINISTERING AGENCY

The Department of Institutions requested designation as the administering agency for two of Mountain View School's (MVS) entities. These entities account for moneys received as reimbursement for federal boarders. Because the department is the administering agency, cash in the amount of \$54,280 was transferred to the department during the accounting system closing process at fiscal year-end 1983-84. The transfer was made in accordance with the policies incorporated into the Statewide Budgeting and Accounting System by the Department of Administration's Accounting Division. This policy results in a negative fund balance in MVS's special revenue fund and in inaccurate financial records at June 30, 1984. MVS received the cash for the support of residents under federal jurisdiction and therefore should report the cash at fiscal year-end.

A Department of Institutions official stated the department is the administering agency for control purposes only. The department monitors the cash balances in these entities to ensure non-general fund money is spent before general fund money. The department should work with the Accounting Division to correct the negative fund balance and to improve management information as required by section 17-1-102(1), MCA. This statute requires the Department of Administration to establish an accounting system which will improve the functioning of the various agencies of the state.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS WORK WITH THE DEPARTMENT OF ADMINISTRATION TO ENSURE THE NEEDS OF THE DEPARTMENT OF INSTITUTIONS ARE MET WHILE MAINTAINING THE INTEGRITY OF THE SCHOOL'S FINANCIAL RECORDS.

FEDERAL GRANTS

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal law and regulations.

Mountain View School was a subgrantee receiving federal funds from the federal agencies listed on page 19. We reviewed the major compliance areas in the Chapter I Subgrant and the School Food Subgrants. Areas reviewed included specific grant provisions, cost allowability, and grantor reporting. We did not note any federal compliance problems or question any costs relating to the school's use of federal funds during fiscal years 1982-83 and 1983-84. All items tested were in compliance with applicable laws and regulations. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

INTERNAL CONTROLS

We have examined the financial schedules of Mountain View School (MVS) for the two fiscal years ended June 30, 1984. We issued our opinion dated August 21, 1984, on these schedules. As part of our examination, we made a study and evaluation of the school's system of control. Our study evaluated the system as required by generally accepted government auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receivables;
2. payroll;
3. expenditures/liabilities;
4. plant, property, and equipment;
5. trust accounts; and
6. grants.

We evaluated controls over payroll, trust accounts, property, plant and equipment, and grants. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to revenue/receivables and expenditures/liabilities because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of Mountain View School is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance: (1) that assets are safeguarded against loss from unauthorized use or disposition; (2) that transactions are executed in accordance with management's authorization; and (3) that transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system

of controls used by Mountain View School. However, our study disclosed a condition which could result in accounting errors that would be difficult to detect. This condition relates to processing transactions and is described below.

The preceding three paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

TRANSACTIONS PROCESSED

Currently, Mountain View School (MVS) does not reconcile document logs to either the daily transaction listings or the monthly accounting system document log. MVS officials cannot be assured that only authorized transactions were processed or that all authorized transactions were processed as intended. MVS should reconcile document logs to the daily transaction listing or the monthly accounting system document log.

RECOMMENDATION #5

WE RECOMMEND THE SCHOOL IMPLEMENT PROCEDURES TO RECONCILE DOCUMENT LOGS WITH A LOG OF PROCESSED TRANSACTIONS.

PRIOR AUDIT RECOMMENDATIONS

The previous audit of the school contained ten recommendations still applicable to the school. The school has implemented eight of these recommendations, partially implemented one, and has not implemented one.

The recommendation the department has not implemented concerns agency fund placement and is addressed on page 2 of this report.

AUDITOR'S REPORT AND FINANCIAL SCHEDULES

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



ERT R. RINGWOOD
SLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Expenditures by Program by Object - All Funds; the Schedule of Expenditures by Program by Object by Fund - Budget and Actual; the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual; the Schedules of Changes in Fund Balance; and the Schedule of Federal Subgrants of Mountain View School for the two fiscal years ended June 30, 1983 and 1984. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the school's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

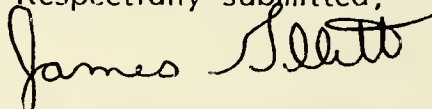
The school improperly accrued and deferred Special Revenue Fund revenues in fiscal years 1981-82, 1982-83, 1983-84, and the Department of Administration's Accounting Division erroneously recorded revenue in the Special Revenue Fund during fiscal year 1983-84. The misstatement, as it affects fund balance, is described in Note 7.

The school has improperly classified certain school operating activities as Agency Funds rather than Special Revenue Funds. The resulting misstatements are described in Note 6.

In our opinion, because of the effects of the matters discussed in paragraphs three and four, the Schedule of Expenditures by Program by Object by Fund - Budget and Actual, the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual, the Schedule of Changes in Fund Balance, and the Schedule of Federal Subgrants do not present fairly, in conformity with the basis of accounting described in Note 1, the results of operations and the changes in fund balance of the Special Revenue Fund of Mountain View School for the fiscal years ended June 30, 1983 and 1984.

In our opinion, the Schedule of Expenditures by Program by Object by Fund - Budget and Actual of the General Fund, the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual of the General Fund, the Schedule of Changes in Fund Balance of the General Fund, and the Schedule of Expenditures by Program by Object - All Funds present fairly the results of operations and the changes in fund balance of Mountain View School for the two fiscal years ended June 30, 1983 and 1984, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.

Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

August 21, 1984

Approved by:



Robert R. Ringwood
Legislative Auditor

DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE, July 1, 1982	\$ -0-	\$ 11,064
ADDITIONS:		
Fiscal Year 1983		
Revenue	\$ -0-	\$108,716
Increase in Inventory	-0-	3,914
Non-Budgeted Revenue	163	526*
Prior Year Revenue Adjustment	299	(1,261)
Support from State of Montana	1,495,600	-0-
Fiscal Year 1984		
Revenue	-0-	121,741
Increase in Inventory	28,335	-0-
Non-Budgeted Revenue	2,596	1,216
Prior Year Revenue Adjustment	-0-	(737)
Support from State of Montana	1,390,367	-0-
Total Additions	<u>2,917,360</u>	<u>234,115</u>
REDUCTIONS:		
Fiscal Year 1983		
Expenditures	1,496,062	97,202
Non-Budgeted Expenditures	-0-	525*
Prior Year Expenditure Adjustments	-0-	9,525
Fiscal Year 1984		
Expenditures	1,423,516	110,682
Prior Year Expenditure Adjustments	(2,218)	(25)
Transfer Out	-0-	54,280
Total Reductions	<u>2,917,360</u>	<u>272,189</u>
Prior Period Adjustment	<u>-0-</u>	<u>(15,707)</u>
FUND BALANCE, June 30, 1984	\$ -0-	\$(42,717)**

* This represents insurance proceeds recorded in the Bond Proceeds and Insurance Clearance Fund under the old treasury fund structure. According to state law, these funds did not require an appropriation.

** The negative fund balance is the result of the cash transfer to the Department of Institutions during the accounting system closing process at fiscal year-end and the recording of accrual and deferral of grant funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 18.

DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
SCHEDULE OF REVENUE BY REVENUE CLASSIFICATION BY FUND
ESTIMATED AND ACTUAL
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

	Federal Assistance	Income Collections and Transfers	Reimbursements	Total Revenues
<u>FISCAL YEAR 1983-84</u>				
General Fund				
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Actual Revenue	<u>-0-</u>	<u>28,335*</u>	<u>2,596***</u>	<u>30,931</u>
Collections				
Over(Under) Estimate	<u>\$ -0-</u>	<u>\$28,335*</u>	<u>\$ 2,596***</u>	<u>\$ 30,931</u>
Special Revenue Fund				
Estimated Revenue	\$59,365	\$ -0-	\$ 3,600**	\$ 62,965
Actual Revenue	<u>58,947</u>	<u>-0-</u>	<u>64,010**</u>	<u>122,957</u>
Collections				
Over(Under) Estimates	<u>\$ (418)</u>	<u>\$ -0-</u>	<u>\$60,410</u>	<u>\$ 59,992</u>
<u>FISCAL YEAR 1982-83</u>				
General Fund				
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Actual Revenue	<u>-0-</u>	<u>-0-</u>	<u>163</u>	<u>163</u>
Collections				
Over(Under) Estimates	<u>\$ -0-</u>	<u>-0-</u>	<u>\$ 163</u>	<u>\$ 163</u>
Special Revenue Fund				
Estimated Revenue	\$59,059	\$ -0-	\$ 3,960**	\$ 63,019
Actual Revenue	<u>65,396</u>	<u>-0-</u>	<u>43,846**</u>	<u>109,242</u>
Collections				
Over(Under) Estimates	<u>\$ 6,337</u>	<u>-0-</u>	<u>\$39,886**</u>	<u>\$ 46,223</u>

* This represents the increase in the value of inventory.

** This represents Federal (which includes Tribal) Boarder Payments.

*** This represent actual non-budgeted revenue for indirect cost recoveries related to federal grants.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 18.

DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT BY FUND
BUDGET AND ACTUAL
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

	<u>CARE AND CUSTODY PROGRAM</u>	
	<u>Fiscal Year</u> <u>1983-84</u>	<u>Fiscal Year</u> <u>1982-83</u>
GENERAL FUND		
Budget	<u>\$1,529,331</u>	<u>\$1,521,671</u>
Actual		
Personal Services	1,174,018	1,220,292
Operating Expenses	232,123	230,218
Equipment	17,375	45,551
Total Actual	<u>1,423,516</u>	<u>1,496,061</u>
Unspent Appropriation Authority	<u>\$ 105,815</u>	<u>\$ 25,610</u>
 SPECIAL REVENUE FUND		
Budget	<u>\$ 116,557</u>	<u>\$ 101,486</u>
Actual		
Personal Services	100,519	71,242
Operating Expenses	6,618	21,072
Equipment	3,545	5,413
Total Actual	<u>110,682</u>	<u>97,727</u>
Unspent Appropriation Authority	<u>\$ 5,875</u>	<u>\$ 3,759</u>
 ALL FUNDS TOTAL (Memo Only)		
Budget	<u>\$1,645,888</u>	<u>\$1,623,157</u>
Actual		
Personal Services	1,274,537	1,291,534
Operating Expenses	238,741	251,290
Equipment	20,920	50,964
Total Actual	<u>1,534,198</u>	<u>1,593,788</u>
Unspent Appropriation Authority	<u>\$ 111,690</u>	<u>\$ 29,369</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 18.

DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT
ALL FUNDS
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

	<u>CARE AND CUSTODY PROGRAM</u>	
	<u>Fiscal Year</u> <u>1983-84</u>	<u>Fiscal Year</u> <u>1982-83</u>
PERSONAL SERVICES		
Salaries	\$1,029,197	\$1,055,982
Employee Benefits	245,340	235,552
Total Personal Services	<u>1,274,537</u>	<u>1,291,534</u>
OPERATING EXPENSES		
Contracted Services	43,073	65,959
Supplies and Materials	89,558	81,053
Communications	13,793	16,587
Travel	4,389	5,717
Rent	1,609	1,566
Utilities	56,366	54,442
Repair and Maintenance	17,820	20,463
Other Expenses	12,133	5,503
Total Operating Expenses	<u>238,741</u>	<u>251,290</u>
EQUIPMENT		
Equipment	<u>20,920</u>	<u>50,964</u>
Total Equipment	<u>20,920</u>	<u>50,964</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,534,198</u>	<u>\$1,593,788</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 18.

DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
NOTES TO FINANCIAL SCHEDULES
JUNE 30, 1983 and JUNE 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mountain View School is a function of the Department of Institutions, Division of Corrections, which operates under a superintendent appointed by the director of the Department of Institutions. The school operates under the care and custody program.

The following is a summary of the significant accounting policies:

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the school:

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the department for others. The major item accounted for in these funds by the school are student accounts. A legislative appropriation is not required to spend from these funds.

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation

exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Vacation and Sick Leave

Teachers at the school accumulate sick leave while all other employees at the school accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of Mountain View School. Expenditures for termination pay currently are absorbed in the annual operational costs of the school. At June 30, 1984, the school has a liability of approximately \$66,750 for vacation leave and \$24,000 for sick leave.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS). The school's contributions to these plans are shown below:

	<u>Fiscal Year 1982-83</u>	<u>Fiscal Year 1983-84</u>
PERS	\$53,562	\$54,586
TRS	13,107	11,864
Total	<u>\$66,669</u>	<u>\$66,450</u>

3. BENEFITS

The institution provides one meal per shift to all employees as a union or historical benefit. The approximate value of these meals at \$1.50 each was \$19,667 and \$20,891 for fiscal years 1982-83 and 1983-84, respectively.

4. GENERAL FUND BALANCE

The state's General Fund beginning and ending fund balance on a non-consolidated basis is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

5. GENERAL FIXED ASSETS

The school records assets on the state's Property and Accountability Management System. Fixed asset balances at June 30, 1984, are:

Land	\$ 24,000
Buildings	829,461
Other Improvements	172,203
Equipment	311,665
Museum Art	120
Total General Fixed Assets	<u>\$1,337,449</u>

6. AGENCY ACCOUNT BALANCES

The school recorded \$7,794 in its Agency Fund at June 30, 1984. The account balance at June 30, 1984, does not show the results of trust account receipts and disbursements as recorded in the school's manual ledgers for fiscal year 1982-83 and 1983-84. The balance of the trust accounts per the manual ledgers was \$9,034 at June 30, 1984 for a difference of \$1,240.

The school accounts for donations, canteen and recreation activity in the Agency Fund which would be more appropriately accounted for in the Special Revenue Fund. The following over(under)statements were noted.

	<u>Fiscal Year 1982-83</u>	<u>Fiscal Year 1983-84</u>
Revenue	\$(6,293)	\$(7,816)
Expenditures	(7,425)	(7,069)
Beginning Fund Balance	(2,450)	(1,318)
Assets	(1,318)	(2,065)

These misstatements result in the June 30, 1983 and 1984, Special Revenue Fund balances being understated by \$1,318 and \$2,065 respectively.

7. SPECIAL REVENUE FUND

Due to errors made by the school and the Accounting Division of the Department of Administration in recording, accruing and deferring revenues the following over(under)statements were noted:

	<u>Fiscal Year 1982-83</u>	<u>Fiscal Year 1983-84</u>
Revenue	\$ (83)	\$ 10,762
Prior Year Items	(1,377)	-0-
Beginning Fund Balance	7,336	(15,707)
Transfers Out	(7,075)	(1,621)
Liabilities	(16,557)	(12,383)
Assets	(850)	-0-
Prior Period Adjustment	-0-	15,707

These misstatements result in the June 30, 1983 and 1984, Special Revenue Fund balance being overstated by \$15,707 and \$12,383, respectively.

MONTANA DEPARTMENT OF INSTITUTIONS
MOUNTAIN VIEW SCHOOL
SCHEDULE OF FEDERAL SUBGRANTS
FISCAL YEARS ENDING JUNE 30, 1983 and 1984

Subgrants through the State Office of Public Instruction

<u>1983</u>	<u>Grant Number</u>	<u>Disbursement</u>
ESEA Chapter I	83-33-6004-1461A	\$ 22,681
	82-33-6004-3460A	4,503
Career Education	82-29-6004-9052	5,342
Block Grant	83-39-6004-1375	480
School Nutrition	6004	<u>26,500</u>
Total		<u>\$ 59,506</u>

<u>1984</u>	<u>Grant Number</u>	<u>Disbursement</u>
ESEA Chapter	83-33-6004-1461A	\$ 3,608
	84-33-6004-2461	26,673
Block Grant	84-39-6004-2375	508
School Nutrition	6004	<u>25,855</u>
Total		<u>\$ 56,644</u>

This schedule was prepared reporting expenditures and valid obligations incurred during the period as disbursements. The following schedule reconciles the disbursements to the Special Revenue Fund expenditures.

Reconciliation to Special Revenue Fund Expenditures

	<u>Fiscal Years</u>	
	<u>1983-84</u>	<u>1982-83</u>
Disbursements as Reported Above	\$ 56,644	\$59,506
Add: Federal Boarder Expenditures	56,634	37,696
Nonbudgeted Expenditures	<u>-0-</u>	<u>525</u>
Subtotal	<u>113,278</u>	<u>97,727</u>
Less: Indirect Cost Recoveries to the General Fund	<u>(2,596)</u>	<u>-0-</u>
Total Special Revenue Fund Expenditures (page 13)	<u>\$110,682</u>	<u>\$97,727</u>

AGENCY REPLY



DEPARTMENT OF INSTITUTIONS



TED SCHWINDEN, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 449 3930

HELENA, MONTANA 59620

October 1, 1984

RECEIVED

OCT 1 1984

MONTANA LEGISLATIVE AUDITOR

Legislative Audit Committee
Of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Gentlemen:

We have reviewed the audit report prepared by the Office of the
Legislative Auditor on the Mountain View School.

The report provides a very welcome service and is sincerely appreciated.

Our responses to the recommendations are attached.

Sincerely,

A handwritten signature in black ink, appearing to read "Carroll V. South".

CARROLL V. SOUTH
Director
Department of Institutions

CVS:em

Attachment

RESPONSES TO RECOMMENDATIONS ON THE
MOUNTAIN VIEW SCHOOL AUDIT

September 28, 1984

RECOMMENDATION #1:

We recommend the school record transactions relating to donations, recreation, and canteen accounts in the special revenue fund.

RESPONSE: Concur

COMMENT: Mountain View School will request spending authority for these categories from the 1985 Legislature in order to record these in the special revenue fund.

RECOMMENDATION #2:

We recommend the school:

- A. Establish written policies for handling resident accounts with negative balances.
- B. Reimburse negative account balances for allowable state expenditures at each fiscal year end.

RESPONSE: Concur

COMMENT: It has been the desire to make the youth at Mountain View School and the parents of these youth more accountable for some of their own expenses when possible. Some of these responsibilities we would like to see the youth and families more accountable include travel expenses for therapeutic home visits and clothing purchases. Often in the past, Mountain View School assumed these costs. We now allow the youth to go in the "red" if that youth has a job and has money coming, or if the parents have promised to send money for certain needs that are justifiable.

In concurring with this recommendation, Mountain View School has issued a draft policy and will have the final policy in effect by October 19, 1984.

RECOMMENDATION #3:

We recommend the school transfer abandoned property to the Department of Revenue in accordance with state law.

RESPONSE: Concur

COMMENT: Mountain View School has requested the form to do this from the Department of Revenue, and this will be completed by October 19, 1984.

RECOMMENDATION #4:

We recommend the Department of Institutions work with the Department of Administration to insure the needs of the Department of Institutions are met while maintaining the integrity of the school's financial records.

RESPONSE: Concur

COMMENT: The Department of Institutions will make a request to the Accounting Division not to transfer the cash from the Agency Subdivisions of the Accounting Entities which have 6401 as Control Agency, to the 6401 Agency at Fiscal Year End. If this cannot be done then the Department of Institutions will request separate Accounting Entities to account for all the funds separately.

RECOMMENDATION #5:

We recommend the school implement procedures to reconcile document logs with a log of processed transaction.

RESPONSE: Concur

COMMENT: Mountain View School has already received staff training from Central Office and this procedure will be implemented completely by October 19, 1984.

